

Message Text

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ACTION SS-30

INFO OCT-01 ISO-00 SSO-00 CCO-00 NSCE-00 INRE-00 /031 W

----- 100454

P R 271112Z DEC 73

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC PRIORITY 5766

INFO USINT ALGIERS

AMEMBASSY ABU DHABI

AMEMBASSY BONN

AMEMBASSY BEIRUT

AMEMBASSY BRUSSELS

AMEMBASSY CARACAS

AMEMBASSY COPENHAGEN

AMCONSUL DHAHRAN

AMEMBASSY JAKARTA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY ROME

AMEMBASSY TEL AVIV

AMEMBASSY ISLAMABAD

AMEMBASSY BRASILIA

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

S E C R E T SECTION 1 OF 2 JIDDA 5715

EXDIS

DEPT PASS CAIRO

KUWAIT PASS DOHA

SECRET

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E.O. 11652: GDS

TAGS: ENRG, SA

SUBJ: POSSIBILITY OF DECREASE IN OIL PRICES

1. SUMMARY: YAMANI UNDERSTANDS EFFECTS RECENT PRICE INCREASES WILL HAVE ON WORLD ECONOMY; SAYS PRICE INCREASES WERE FORCED ON OPEC BY THE SHAH; REPORTS KING FAISAL'S ANGER AT MAGNITUDE OF INCREASE; TELLS AMBASSADOR THAT SAUDI ARABIA WOULD SUPPORT PRICE REDUCTION OF \$1.00-\$1.50/BBL. AND SAYS OPEC WOULD FOLLOW SAUDI LEAD PROVIDED SUG (OR OTHERS) CAN CONVINCE SHAH TO GO ALONG. END SUMMARY.

2. I HAD A SECOND LONG CONVERSATION WITH YAMANI LATE YESTERDAY EVENING (DEC 26) AT HIS REQUEST. I GAVE HIM A LARGE SELECTION OF EUROPEAN AND AMERICAN NEWSPAPER CLIPPINGS ABOUT HIS TRAVELS AND RECENT OPEC "TRIUMPHS." I TOLD HIM MY FAVORITE ARTICLE WAS ONE FROM THE MANCHESTER GUARDIAN OF NOV 29 WHICH DESCRIBED HIM AS THE MOST MENACING EASTERN EMISSARY TO ARRIVE IN EUROPE SINCE GENGHIS KHAN. YAMANI WAS ONLY BARELY AMUSED.

3. I ALSO GAVE A PARTICULARLY GORY ACCOUNT OF THE EFFECT THE OPEC PRICE INCREASES WILL HAVE ON THE ECONOMY OF THE WORLD IN GENERAL AND THE DISASTER THAT IT WILL BRING TO INDIA, PAKISTAN, BRAZIL, DENMARK AND OTHERS, MANY OF WHOM ARE FRIENDLY TO THE ARABS. I DID THIS WITH SOME IMAGINATION AND WITH CONSIDERABLE EXTRAPOLATION AS I DO NOT YET HAVE MUCH SPECIFIC INFORMATION. ANY DETAILS THE DEPARTMENT OR THE ADDRESSEE POSTS COULD SEND US WOULD BE GREATLY APPRECIATED.

4. THE UNITED STATES WON'T LIKE THE INCREASE ANY MORE THAN ANYONE ELSE, I SAID, BUT AT LEAST IT WILL GIVE STRONG IMPETUS TO THE DEVELOPMENT OF ALTERNATIVE FUELS, (I WILL SEND YAMANI THE COPY OF BILL SIMON'S STATEMENTS ON THE SUBJECT WHICH APPEARED IN THIS MORNING'S WIRELESS BULLETIN).

5. IF THE ARABS LOST FRIENDS BY THEIR BOYCOTT, THE PRICE INCREASE HAS TURNED THEM INTO THE WORLD'S PRIMARY OGRE.

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THEY MAY ENJOY THE TEMPORARY "FRIENDSHIP" OF EUROPEAN COUNTRIES AND JAPAN, WON BY RAISING OIL PRODUCTION FOR ALL THE WORLD EXCEPT THE UNITED STATES. BUT THIS FRIENDSHIP WILL PROVE TO BE AN EPHEMERAL THING AND WILL EVAPORATE IN THE HOT SUN OF CONSUMER ATTEMPTS TO GET MONEY TO PAY FOR THEIR OIL IMPORTS.

6. YAMANI BRISTLED AND ASKED IF I HADN'T HEARD WHAT HE HAD TOLD ME THAT MORNING; THAT HE HAD TRIED TO KEEP PRICES LOW; IT WAS THE SHAH WHO HAD INSISTED ON HIGHER PRICES. I TOLD HIM THAT OF COURSE I HAD HEARD AND BELIEVED HIM BUT IN THE EYES OF THE WORLD, LIKE IT OR NOT, OIL EQUALS ARABS. IRANIANS, VENEZUELANS AND ALL

OTHER PRODUCING COUNTRIES FIGURED ONLY MARGINALLY INTO THIS EQUATION.

7. HE THEN PROCEEDED TO GIVE ME A FULL ACCOUNT OF THE OPEC MEETING. HE SAID HE HAD GONE TO TEHRAN WITH INSTRUCTIONS TO BE MODERATE AND HE WAS. INITIALLY HE PROPOSED RAISING TAXES AND ROYALTIES ON ARABIAN LIGHT CRUDE TO \$4.25 FROM THE APPROXIMATE \$3.05 AT PRESENT. (N.B.: ARABIAN LIGHT CRUDE IS RELATIVELY LOW SULPHUR, 34 DEGREES API AND SERVES AS THE STANDARD PERSIAN GULF CRUDE. OTHER CRUDES WITH DIFFERENT GRAVITIES AND SULPHUR CONTENTS ARE RATED AGAINST IT. THE PRICES THROUGHOUT THIS MESSAGE ARE TAXES AND ROYALTIES, NOT POSTED PRICES OR TAX-PAID COSTS. THE SHAH WILL PROBABLY SUCCEED IN ABOLISHING THE POSTED PRICE SYSTEM, AS INDEED HE SHOULD. IT IS AN ANACHRONISM THAT ONLY CONFUSES THE PUBLIC.)

8. THE SHAH, VIGOROUSLY SUPPORTED BY KUWAIT, DEMANDED THAT TAXES BE RAISED TO \$8.50. QATAR WOULD PROBABLY HAVE GONE ALONG WITH THE MILDER SAUDI POSITION BUT MOST OTHERS SUPPORTED IRAN. "ABU DHABI," YAMANI SAID, "ALWAYS WANTS MORE MONEY. LIBYA GOES ITS OWN WAY AND WILL RAISE PRICES NO MATTER WHAT IS DONE; INDONESIA, AS USUAL, SAID NOTHING AND IS CONTENT TO PICK UP THE ADVANTAGES WON BY OTHERS. NIGERIA AID NOTHING BUT VOTED FOR THE IRANIAN POSITION AND VENEZUELA WAS REPRESENTED BY ITS AMBASSADOR TO IRAN,

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A NITWIT, WHO SUCCEEDED IN ANTAGONIZING THE SHAH EVEN WHILE FAWNING ON HIM - A RARE TALENT. STRANGELY ENOUGH, IRAQ MIGHT HAVE SUPPORTED ME - NOT BECAUSE THEY DON'T WANT MORE MONEY OR BECAUSE THEY HAVE DEVELOPED A LOVE FOR SAUDI ARABIA BUT BECAUSE THEY HATE IRAN MORE."

9. YAMANI SAID HE MAINTAINED A FIRM POSITION AGAINST THE HIGHER PRICE UNTIL THE IRANIANS REDUCED THEIR DEMAND TO \$7.00, AND AMOUZEGAR RETURNED TO THE MEETING WITH A PERSONAL MESSAGE FROM THE SHAH. THE SHAH SAID THAT IF YAMANI WERE WORRYING ABOUT THE CONSUMERS HE SHOULD STOP. THE \$7.00 TAX WOULD TRANSLATE INTO A DELIVERED PRICE OF AROUND \$8.50/BARREL WHICH WAS THE COST OF ALTERNATIVE ENERGY TO THE U.S. AND EUROPE. THIS NEW TAX HAD BEEN DISCUSSED WITH THE UNITED STATES, GREAT BRITAIN AND OTHER MAJOR CONSUMERS, THE SHAH SAID, AND THEY UNDERSTOOD THE IRANIAN RATIONALE AND APPROVED IT.

NOTE BY OC/T: NOT PASSED CAIRO.

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10. I SAID SOMEONE HAD ROCKS IN HIS HEAD. \$8.50
MAY BE THE COST OF ALTERNATIVE FUEL AND IT MAY
ULTIMATELY SERVE AS THE UPPER RPT UPPER LIMIT ON
PETROLEUM PRICES BUT NO ONE COULD POSSIBLY APPROVE

SUCH AN INCREASE TODAY. THERE WERE INDEED NUMEROUS STATEMENTS FROM THE UNITED STATES ON WHAT WE COULD DO IN EVENTUALLY DEVELOPING OTHER ENERGY SOURCES BUT IN THE SHORT RUN - I.E. THE NEXT TEN YEARS - WE WILL HAVE DIFFICULTY IN FINDING THE MONEY TO PAY FOR OUR IMPORTED OIL. AND THE ALLEGATION THAT BRITAIN IN ITS PRESENT STATE UNDERSTOOD, MUST LESS APPROVED, SUCH A DRASIC INCREASE IN OIL PRICES WAS ABSURD; I WOULD HAVE THOUGHT AMOUZEGAR WOULD HAVE MORE SHAME THAN TO MAKE SUCH A STATEMENT. AS FAR AS I COULD TELL THE REACTION OF ALL MAJOR CONSUMERS HAS BEEN ONE OF PURE HORROR, NOT OF CALM "UNDERSTANDING."

11. YAMANI REPLIED THAT AT THAT POINT HE CALLED JIDDA FOR INSTRUCTIONS. HE WAS ONLY ABLE TO REACH PRINCE FAHD, MINISTER OF INTERIOR, WHO TOLD HIM HE SHOULDN'T RISK ANTAGONIZING THE SHAH.

12. ON HIS RETURN TO JIDDA, YAMANI SAID HE WAS GIVEN A ROYAL DRESSING DOWN BY THE KING (WE HAVE THIS FROM OTHER SOURCES), WHO SAID HE WAS WRONG TO TAKE FAHD'S ADVICE; HE SHOULD HAVE INSISTED ON TALKING WITH THE KING HIMSELF, AND HE WOULD HAVE ORDERED HIM TO STICK WITH THE LOWER PRICE.

YAMANI COMMENTED TO ME THAT THIS WOULD HAVE BEEN DIFFICULT; IF THE REST OF OPEC HAD RAISED PRICES AND ONLY SAUDI ARABIA HAD HELD THEM LOW, SAUDI OIL WOULD STILL HAVE BEEN SOLD AT THE WORLD PRICE AND THE OIL COMPANIES, RATHER THAN THE SAUDI GOVERNMENT, WOULD HAVE TAKEN THE DIFFERENCE.

13. I SAID ALL OF THIS MADE ME VERY GLUM. IT WAS CERTAINLY TOO BAD THAT HE DIDN'T GET THROUGH TO THE KING (AND THIS WAS YET ANOTHER REASON WHY
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SAUDI ARABIA SHOULD GET AN AMERICAN TELEPHONE NETWORK INSTALLED). BUT WHAT DID SAUDI ARABIA INTEND TO DO NOW? WAS IT JUST GOING TO SIT BACK AND WATCH THE WORLD'S ECONOMY COLLAPSE? I SAID I DIDN'T ENVY HIM HIS RESPONSIBILITY; AND MAYBE THE WORLD WOULD BE BETTER OFF WITH GUNGHS KHAN, AFTER ALL.

14. YAMANI THEN SUGGESTED THAT THE ONLY THING TO DO SEEMED TO BE TO LOWER PRICES. OPEC COULD BE RECONVENED, HE SAID, IT COULD ANNOUNCE THAT IT HAD MISCALCULATED THE EFFECT THE HIGHER PRICE WOULD HAVE ON THE WORLD'S ECONOMY; AND THE PRICES WOULD HENCEFORTH BE LOWERED (HE THOUGHT A REDUCTION IN THE TAX FIGURES BY \$1.00-\$1.50; I.E. TO \$5.50-\$6.00 ("OR MAYBE LOWER") WOULD BE ACCEPTABLE TO ALL OPEC EXCEPT IRAN. HE ADDED THAT

IT IS ESSENTIAL FIRST TO PERSUADE THE SHAH TO CHANGE HIS POSITION. IF THE SHAH, "THE WEST'S BEST FRIEND IN THE MIDDLE EAST," MAINTAINS THAT THE HIGHER PRICE IS BOTH FAIR AND ACCEPTABLE TO THE CONSUMERS, THE USG COULDN'T EXPECT HIM (YAMANI) TO SWAY ANY OF THE WAVERERS.

15. YAMANI SAID SAUDI ARABIA WOULD ASK FOR AN EMERGENCY MEETING OF OPEC TO RECONSIDER TAXES AS SOON AS I COULD TELL HIM THE USG OR OTHER CONSUMERS HAD PERSUADED THE SHAH TO BACK DOWN. HE SUGGESTED THAT WE AND THE BRITISH TELL THE IRANIANS THAT WE WERE SHOCKED TO HEAR REPORTS THAT WE HAD "APPROVED" THE PRICE INCREASES; THAT THERE MUST HAVE BEEN SOME SERIOUS MISUNDERSTANDING. IN SHORT, HE SAID, "GIVE THE SHAH THE SAME TREATMENT YOU'VE GIVEN ME."

16. COMMENT AND SUGGESTED ACTION: IN RECAPITULATING THE EVENING'S CONVERSATION I ASKED YAMANI IF THERE WEREN'T SOME POSSIBILITY THAT THERE HAD BEEN AN HONEST MISUNDERSTANDING IN TEHRAN ABOUT THE ACCEPTABILITY OF THE PRICE INCREASE TO CONSUMERS. HE RECONSIDERED AND SAID THAT AMOUZEGAR'S PHRASING MIGHT HAVE CONTAINED SOME DELIBERATE AMBIGUITIES, BUT THE IMPRESSION OF THE CONFERENCE WAS CLEARLY THAT THE U.S., BRITAIN AND OTHERS HAD BEEN CONSULTED BY THE SHAH AND HAD GIVEN THEIR APPROVAL. YAMANI SAID THAT HE WOULD HAVE NO OBJECTION

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WHATSOEVER IN BEING QUOTED TO THE IRANIANS ON THIS OR ON ANYTHING ELSE HE HAD TOLD ME ABOUT THE OPEC MEETING; AND HE WOULD BE INTERESTED IN LEARNING WHAT THE IRANIANS WOULD TELL OUR AMBASSADOR HE HAD SAID.

17. WE CAN'T WASTE MUCH TIME IF WE ARE TO DECIDE TO PUT PRESSURE ON THE SHAH. THE SHOCK IN THE CONSUMER COUNTRIES IS LIKELY TO TURN INTO NUMBED PARALYSIS AT THE SAME TIME THE PRODUCERS ARE FREEZING THEIR CALCULATIONS ON WHAT THEY WILL DO WITH THEIR NEWLY ANTICIPATED WEALTH.

18. THE LAST MINUTE SERIES OF DEMARCHESS THE CONSUMERS MADE TO THE OPEC COUNTRIES MAY HAVE SAVED US FROM THE SHAH'S PROPOSED \$8.50 TAX ON OIL, BUT \$7.00 IS STILL BAD. I WOULD HOPE THAT THE U.S. COULD NOW PUSH STRONGLY FOR JOINT CONSUMER ACTION AND CONSUMER/PRODUCER CONTACTS. THE SECRETARY HAS RAISED THE MATTER ALREADY. EUROPE'S AND JAPAN'S REACTION WAS LUKEWARM BUT THEIR INTEREST SHOULD HAVE BEEN HEATED UP CONSIDERABLY BY THE RECENT PRICE INCREASES. WE SHOULD, I BELIEVE, NOW CONSIDER AN OPEC-OECD OR AN OPEC-MAJOR CONSUMER CONFERENCE ON PRICING WHERE WE MIGHT EVEN BE ABLE TO ACCEPT THE "ALTERNATIVE ENERGY COST" CONCEPT FOR 1980. WE MIGHT ALSO

WORK OUT A SCALED INCREASE IN PRICES FOR THE NEXT FEW YEARS UNTIL THAT POINT IS REACHED, BUT THE MOST IMPORTANT CONCERN NOW WOULD BE TO GET OPEC BACKED OFF ITS CURRENT DEMANDS. THE MEETING COULD ALSO SET THE STAGE FOR SUBSEQUENT CONSUMER-PRODUCER COOPERATION ON MONETARY MATTERS, INVESTMENTS AND INDUSTRIALIZATION.

18. UNLESS EUROPE AND JAPAN ARE SHOWING MUCH MORE RESOLUTION THAN THEY DID WHEN I ATTENDED THE OECD MEETINGS, THE U.S. WILL HAVE TO TAKE THE LEAD IN CALLING FOR AND ORGANIZING SUCH A MEETING OR ANY OTHER CONSUMER ACTION. NO ONE ELSE IS WILLING OR CAPABLE OF LEADERSHIP.

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NOTE BY OC/T: NOT PASSED CAIRO.

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Message Attributes

Automatic Decaptoning: Z
Capture Date: 10 MAY 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 27 DEC 1973
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: cunninfx
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973JIDDA05715
Document Source: ADS
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: 11652 GDS
Errors: n/a
Film Number: P750032-2376
From: JIDDA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731256/abqcefjq.tel
Line Count: 346
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: ACTION SS
Original Classification: SECRET
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators:
Previous Classification: SECRET
Previous Handling Restrictions: EXDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: cunninfx
Review Comment: n/a
Review Content Flags:
Review Date: 26 JUL 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26-Jul-2001 by willialc>; APPROVED <25-Sep-2001 by cunninfx>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: POSSIBILITY OF DECREASE IN OIL PRICES
TAGS: ENRG, SA
To: STATE INFO ALGIERS
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Type: TE

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